

Daily Market Outlook

Oil, Yields, USD

- **Oil, Yields, USD:** *Softer core inflation has reduced the urgency for an October Fed hike but rising long-end Treasury yields and lingering energy risks continue to support the USD. Relief for high-beta currencies and EM carry trades likely requires a sustained decline in energy prices.*
- **Fiscal Clouds Gather:** *GBP has been supported by M&A inflows and a resilient economy but stretched BoE tightening expectations and mounting fiscal pressures ahead of the October Budget could limit further gains and leave GBP vulnerable to disappointment.*
- **Sentiment remains sluggish for gold** *despite softer core PCE. Failure to sustain gains suggests gold may remain under pressure until yields and the USD ease more meaningfully.*
- **USDSGD more than retraced its post-PCE dip** *as UST yields rebounded. Elevated yields may keep the pair supported near term, though MAS tightening expectations may partially buffer SGD underperformance.*

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Oil, Yields, USD: The quarter ended with the USD on a firm footing, reversing an earlier pullback after the latest US PCE inflation report. While softer-than-expected inflation data pushed front-end Treasury yields lower and reduced expectations of a near-term Fed hike, long-end yields continued to climb, driving a further steepening in the yield curve.

PCE revisions lowered the annual core PCE inflation rate to 3.0% YoY from the previously reported 3.3%, while monthly core inflation rose just 0.2% MoM, below the 0.3% consensus. The data suggests core inflation is no longer reaccelerating, giving the Fed less urgency to tighten policy at its October meeting. We continue to expect one final rate hike in December, after which the Fed is likely to keep the policy rate unchanged through at least the first half of 2027.

Rising energy prices and higher US yields have become an increasing, though still manageable, drag on risk-sensitive currencies such as the AUD and on EM carry trades. However, if these pressures persist or intensify, investors may begin to question the durability of global growth. The most direct relief for risk-sensitive currencies and EM carry would come from a meaningful decline in energy prices. Softer core

inflation could eventually provide similar support, but the process would likely be slower and less immediate.

Oil prices edged higher overnight as markets remained cautious despite signs that Persian Gulf exports have recovered significantly in recent weeks. The market's focus remains on the uncertain path of US-Iran negotiations. With geopolitical headlines continuing to swing between escalation and de-escalation, energy markets are likely to remain volatile, keeping upward pressure on inflation expectations and long-end bond yields. In turn, this should continue to provide underlying support for the USD while limiting the recovery potential of higher-beta and carry currencies.

Fiscal Clouds Gather: M&A-related inflows have continued to support GBP, reflecting strong overseas demand for UK assets. Combined with a resilient UK economy, this has reinforced the pound's recent outperformance. We now expect the Bank of England (BoE) to deliver one "insurance" rate hike later this year. However, BoE communication has remained cautious, leaving us wary that policymakers may ultimately fall short of market expectations for around four rate hikes over the next 12 months.

GBP showed little reaction to Prime Minister Andy Burnham's keynote speech at the Labour Party conference. Key proposals included ending the pension triple lock after 2030, expanding the scope for public ownership of water companies, and pursuing closer ties with the European Union.

Attention is now likely to shift back to fiscal risks ahead of the 28 October Budget. Rising gilt yields, subdued growth and higher energy-driven inflation are eroding the government's fiscal flexibility. Markets have become increasingly sensitive to the UK's fiscal outlook as higher borrowing costs threaten to narrow the government's budget headroom ahead of the October fiscal statement.

While resilient economic data has reduced the urgency for BoE easing, a more challenging fiscal backdrop could become a renewed headwind for GBP. With substantial tightening already priced into rates markets, sterling may struggle to extend gains if fiscal concerns intensify or if the BoE proves less hawkish than investors expect.

Gold. Price action not so convincing. Gold sentiment remains sluggish, with prices struggling to sustain gains even after softer core PCE lowered expectations for an October Fed hike. The initial easing in the USD and US Treasury yields also proved short-lived, suggesting that

softer inflation alone may not be sufficient while the broader yield, oil backdrop remains unfavourable for gold.

Near term, the focus remains on whether US Treasury yields can find a peak. A more sustained decline in yields and the USD should help gold stabilise, but failure to respond to softer US data would leave the near-term bias under pressure. We would also be mindful of some month/quarter-end noise before reading too much into the latest move.

Gold last at 4160 levels. Mild bearish momentum on daily chart intact while recent rise in RSI slowed. We continue to watch price action if gold's recent decline is stabilising. There may be some tentative signs of mild bullish divergence on MACD but remains too early to tell. Failure to reclaim back above 4300 – 4350 (21, 50, 100 DMAs) may see bearish pressure return. Resistance at 4300/50, 4460 levels. Support at 4110, 4030 and 3944 (previous low).

Asian FX. Limited relief. Asian FX saw only limited relief following the softer-than-expected core PCE print. Even as markets pared expectations for an October Fed hike, the follow-through on Asian FX has been limited. This could be due to longer-end US Treasury yields still elevated while oil prices showed little signs of pulling back. This may suggest that markets are not yet prepared to fully unwind the recent hawkish repricing on one softer inflation print, particularly with payrolls still to come on Friday. Near term, USD/Asia may stay supported. The case for a more sustained pullback in USD/Asia likely requires confirmation from softer labour-market data and, importantly, some moderation in longer-end yields and oil prices.

RMB. Fix signal consistency with measured pace of appreciation. RMB ended the quarter on a firm note, with the PBoC setting the final USD/CNY fixing before Golden Week at 6.7351, 60 pips lower than the previous session. The stronger CNY fix reinforces the case for a measured pace of RMB appreciation.

With onshore markets closed from 1–7 October, there will be no daily fixing over the next few sessions, while CNH remains tradeable and will take the lead in price discovery. This leaves USDCNH more directly exposed to moves in the broader USD, US rates and incoming US data, including payrolls on Friday. The absence of the fixing anchor and thinner holiday liquidity could also amplify moves in either direction. Softer US data and further unwinding of Fed hike expectations would be supportive of CNH, while any renewed rise in US Treasury yields or USD strength could see some of the recent RMB gains unwind before onshore markets return.

USDCNH last seen at 6.7090 levels. Mild bullish momentum on daily chart intact while the fall in RSI moderated. Consolidation likely. Support at 6.7030 levels before 6.6920 (recent low). Resistance at 6.7290 levels (50 DMA).

USDSGD. Consolidation. USDSGD dipped after softer US core PCE reduced expectations for an October Fed hike, but the move proved short-lived, with the pair more than retracing its losses into NY close. The rebound came as the initial relief in US Treasury faded, with long-end yields remaining elevated amid higher oil prices and broader fiscal concerns. This suggests that softer US inflation alone may not be sufficient to turn the USD backdrop for now.

Near term, USDSGD may remain supported if US Treasury yields stay elevated, though SGD's underlying fundamentals and expectations for a further slight MAS tightening in October may partially help limit the extent of underperformance. A more sustained pullback in US Treasury yields and the USD would be needed for USDSGD to resume its move lower.

USDSGD held steady despite some choppy trades around core PCE release last night. Last at 1.2780. Bullish momentum on daily chart intact while RSI is flat. Consolidation likely. Support at 1.2740 (61.8% fibo retracement of 2026 low to high), 1.2720 (21 DMA). Resistance at 1.2820 (100 DMA), 1.2840 (38.2% fibo).

Technical Levels Table

	EURUSD	USDJPY	GBPUSD	USDCHF	AUDUSD	NZDUSD	USDCAD	XAUUSD	USDSGD	USDPHP	USDINR
Resistance 3	1.1460	159.41	1.3442	0.8429	0.7066	0.5711	1.4372	4318	1.2859	62.86	96.34
Resistance 2	1.1402	158.26	1.3354	0.8388	0.7014	0.5677	1.4290	4247	1.2817	62.74	96.10
Resistance 1	1.1366	157.83	1.3310	0.8373	0.6980	0.5655	1.4261	4202	1.2795	62.70	95.96
Spot	1.1329	157.61	1.3263	0.8356	0.6947	0.5633	1.4236	4151	1.2780	62.66	95.83
Support 1	1.1308	156.68	1.3222	0.8332	0.6928	0.5621	1.4179	4130	1.2753	62.57	95.72
Support 2	1.1286	155.96	1.3178	0.8306	0.6910	0.5609	1.4126	4103	1.2733	62.49	95.61
Support 3	1.1228	154.81	1.3090	0.8265	0.6858	0.5575	1.4044	4031	1.2691	62.36	95.37
Bollinger Band											
Bollinger Upper	1.1697	159.40	1.3627	0.8391	0.7271	0.5900	1.4298	4472	1.2838	62.88	96.57
Bollinger Lower	1.1269	152.96	1.3146	0.8047	0.6927	0.5579	1.3707	4127	1.263	62.45	94.42

Source: Bloomberg, OCBC Group Research. Potential resistance and support levels are identified based on pivot points

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